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1964 Annual Report

The Babcock & Wilcox Company

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Our 97th Year of Helping Industry Serve America

The Babcock & Wilcox Company

Incorporated in 1881 from a partnership formed in 1867.

Babcock & Wilcox is a major producer of capital goods, including steam generating equipment, nuclear systems and components, cleaning systems for heat transfer surfaces, air pollution control systems, meters and controls, systems for process automation, automated production machinery, steel tubular products and refractories.

Directors

A. G. PRATT, Chairman
M. NIELSEN, President
J. S. ANDERSON
W. O. BAKER
J. P. CRAVEN
WALTHER H. FELDMANN
J. ROY GORDON
C. W. MIDDLETON
STODDARD M. STEVENS
B. A. TOMPKINS
JOHN C. TRAPHAGEN
G. G. ZIPF

Officers

M. NIELSEN, President
J. S. ANDERSON, Vice President and General Manager
R. A. BARR, Vice President, Refractories Div, Augusta, Ga
R. J. CANTWELL, Vice President and Comptroller
CARL CLAUS, Vice President, NYC
Boiler → J. P. CRAVEN, Vice President
A. T. FRAGOMEN, Vice President
R. H. HARRISON, Vice President
J. D. HITCH JR., Vice President, NYC
G. W. KESSLER, Vice President, Engrg, Barberton, O
S. T. MACKENZIE, Vice President, Barberton
W. H. ROWAND, Vice President, "
A. P. TABER, Vice President, NYC. Res: Alliance
G. G. ZIPF, Vice President
W. P. CATTERSON, Treasurer
MARTIN VICTOR, Secretary
O. R. CARPENTER, Assistant Vice President

General Offices	161 East 42nd Street, New York, N.Y. 10017
Stock Transfer Agent	BANKERS TRUST COMPANY, 16 Wall Street, New York, N.Y. 10015
Registrar	THE BANK OF NEW YORK, 48 Wall Street, New York, N.Y. 10015
General Counsel	SULLIVAN & CROMWELL, 48 Wall Street, New York, N.Y. 10005
Auditors	PRICE WATERHOUSE & CO., 60 Broad Street, New York, N.Y. 10004
Stock Listed	NEW YORK STOCK EXCHANGE

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Eighty-Fourth

The Babcock & Wilcox Company Annual Report 1964

for the year ended December 31, 1964

Notice to Stockholders

The Annual Meeting of Stockholders will be held at 10 A.M., Wednesday, April 28, 1965, in the Biltmore Hotel, New York City. A formal notice of the meeting with a proxy statement and form of proxy will be mailed to each stockholder March 19, when management will request proxies.

1964 Highlights

	1964	1963
TOTALS		
Orders received	$525,814,000	$398,990,000
Unfilled orders	467,523,000	372,666,000
Sales (on percentage of completion method for long-term contracts)	430,957,000	377,684,000
Income before income taxes and minority interests	49,271,000	46,266,000
U.S. and foreign taxes on income	23,480,000	24,240,000
Net income for the year	25,196,000	21,747,000
Cash dividends declared	12,211,000	10,480,000
Expenditures for property, plant and equipment	12,265,000	23,101,000
Depreciation and amortization	12,825,000	11,227,000
Payrolls and employee benefits	174,158,000	159,372,000
Average number of employees during year	23,200	21,300
Number of stockholders at year end	17,122	15,841
Number of shares issued at year end	12,366,626*	6,183,313*
PER SHARE ISSUED*		
Net income for the year	$ 2.04	$ 1.76
Cash dividends declared	1.00	.86
Stockholders' equity	18.56	17.43

*The stock was split two-for-one in April, 1964. Per share amounts are based on shares issued at December 31, 1964, including shares held in the Treasury for the Stock Option Plan.

The President's Letter

To the Stockholders of The Babcock & Wilcox Company:

Net income for 1964 was $2.04 per share on shipments of $430,957,000, compared with 1963 net income of $1.76 per share on shipments of $377,684,000.

Shipments, income from operations, and net profit for 1964 all represent records for the Company. Earnings have been increasing steadily for six years and have set successive new peaks in each of the last five years.

There was considerable activity in all the markets we serve, creating a heavy demand for our products. Consolidated new orders for 1964 totalled $525,814,000, the highest in the Company's history. Since orders exceeded shipments, the backlog of orders rose to a record $467,523,000 at the end of the year.

On January 30, 1964, the Board of Directors recommended that the capital stock be split two-for-one, and voted to increase the dividend by 16 per cent, to a quarterly rate of $0.25 per share on a split basis. The Board's recommendation for the stock split was approved by the stockholders at the annual meeting in April. There was a steady increase throughout the year in the number of individuals participating in ownership of the Company's stock.

While the Company is making good progress, we, like many manufacturers of capital goods, are faced with a strong upward trend in costs. We are, therefore, constantly reviewing and strengthening our cost reduction and profit improvement programs in order to maintain adequate profit margins.

Our expenditures for research and development were further increased in 1964. An extensive and continuing research and development program is essential to safeguard the Company's position. This activity is resulting in steady improvement of the Company's existing products and the gradual introduction of new products. It is also helping to improve manufacturing efficiency and thereby reduce costs.

Our capital investment program remains at a high level. Approved appropriations at the beginning of 1965 amounted to $16,750,000. Together with additional capital expenditures that may be requested during the year, this should result in total 1965 capital expenditures approximating $20,000,000.

All of these efforts, which are supported by enthusiastic and outstandingly capable employees at all levels, are contributing materially to the Company's profitable growth. If the nation's economy continues on its present course, we are confident that our growth can be maintained in the future.

M. Nielsen.

President

February 25, 1965

1964 Income and Where it Went

Our income was		
From products shipped to customers	$430,957,000	
From investment income	2,224,000	
Total	$433,181,000	
We paid out or provided		
For materials and services purchased	$192,315,000	44.4%
For wages, salaries and employee benefits	174,158,000	40.2
For taxes	27,342,000	6.3
For depreciation of plant and equipment	12,825,000	3.0
For interest on money borrowed	750,000	0.2
For minority interests in subsidiary companies	595,000	0.1
For cash dividends to stockholders	12,211,000	2.8
For future growth (retained earnings)	12,985,000	3.0
Total	$433,181,000	100.0%

Financial Review

The figures in this report result from a consolidation of the accounts of the Company and its subsidiaries—Bailey Meter Company, Diamond Power Specialty Corporation, A. M. Lockett & Co., Limited, and Babcock-Wilcox and Goldie-McCulloch Limited.

Throughout this report, per share figures for prior years have been adjusted to reflect the two-for-one split of the Company's stock effective April 29, 1964.

Sales (Shipments) and Income

With a good volume in all product lines, shipments in 1964 were $430,957,000, an increase of 14 per cent over 1963.

Net income in 1964 was $25,196,000—a new record. This equals $2.04 per share and is an increase of 16 per cent over the $21,747,000 or $1.76 per share earned in 1963. Every division and subsidiary is operating profitably with the sole exception of the Atomic Energy division, which is continuing to invest heavily in research and development work on advanced reactors.

Income before taxes was at an all-time high of $49,271,000; however, it did not increase at the same rate as shipments, largely because labor rates and fringe benefits have been steadily rising without compensating increases in prices.

Income after taxes showed a slightly greater percentage increase than did shipments as a result of the reduction in the Federal corporate tax rate and the incentive tax credit on new equipment.

Taking into consideration the changes in the 1964 Revenue Act, the tax incentive credit on new equipment installed in 1964 has been reflected in total in this year's income. The Company has chosen to continue to spread the 1962 and 1963 credit over the life of the equipment installed in those years in accordance with the method of accounting adopted at that time. For 1964 the total combined credit amounted to $900,000 or $.07 per share, including $565,000 or $.05 per share applicable to equipment installed in 1964.

Dividends

On January 30, 1964, the Board of Directors increased the quarterly dividend by 16 per cent, raising it from $.43 to $.50 a share. The Board also recommended that the capital stock be split two-for-one, which was approved by the stockholders at the annual meeting in April.

Dividends were paid during the year 1964 as follows:

Amount Paid per Share	Date Paid	Date of Record
$.43	Jan. 2, 1964	Dec. 11, 1963
.50	April 1, 1964	March 9, 1964
after 2-for-1 stock split:		
.25	July 1, 1964	June 10, 1964
.25	Oct. 1, 1964	Sept. 10, 1964

Financial Position

The Company's financial position continues strong. Cash and marketable securities were $35,139,000—approximately the same as at the end of the prior year. Working capital has increased to $137,710,000 from $119,851,000 a year ago. Our projections continue to indicate that there will be sufficient internally generated funds to finance the business in the foreseeable future.

On June 1, 1964, the Company again exercised its option and made another $2,200,000 prepayment on its long-term debt without penalty. Previous payments and prepayments have reduced the total debt from $32,000,000 in 1959 to $18,800,000 and the next mandatory payment is not due until June 1, 1967.

Orders and Backlog

Consolidated new orders received during 1964 were $525,814,000 and backlog at the end of the year was $467,523,000. New orders and backlog were at an all-time high, exceeding the previous peaks reached in 1956. The major portion of our backlog is for steam generating equipment, with shipments extending into 1966 or later.

Capital Additions

Expenditures for property, plant and equipment amounted to $12,265,000 in 1964. Capital projects already approved by the Board, together with projects under consideration as part of the Company's long range planning, should result in total capital expenditures of approximately $20,000,000 for 1965.

Babcock-Wilcox and Goldie-McCulloch Limited, of Canada, is being operated as a subsidiary following the acquisition of majority control. This company is included in the consolidated figures for 1964.

The business of C. C. Moore & Company, Engineers, of San Francisco, was purchased in 1964. This organization, which had represented Babcock & Wilcox on the West Coast for 70 years, is now a part of the Boiler division.

A clay mine near Augusta, Ga., was acquired as a source of kaolin–the principal raw material for our Refractories division.

B&W has acquired Menardi and Company, a West Coast manufacturer of dust collecting equipment. This broadening of the Company's activities is in response to the steadily growing need for devices and systems to reduce and control air pollution in the utility, steel and process industries.

Employees

The average number of active employees, including those of the companies acquired during the year, was 23,200 compared with 21,300 in 1963. Payrolls and employee benefits amounted to $174,158,000.

There were 1,317 retired employees receiving pensions, an increase of 101 during the year. A summary of the Company's pension funds established in accordance with formal plans approved by stockholders in 1955 is as follows:

Total assets of pension funds on January 1, 1964	$32,758,000
Contributions by Company during 1964	6,271,000
Income from pension fund investments during 1964	1,532,000
Less pensions paid during 1964	1,855,000
Total assets of pension funds on December 31, 1964	$38,706,000

The status of the Company's Stock Option Plans expressed in shares adjusted for the two-for-one split in April 1964 follows:

1958 Plan

Options were outstanding on January 1, 1964, for	167,136 shares
Options lapsed during 1964 for	3,622 shares
Options were exercised during 1964 for	24,880 shares
Options were outstanding on December 31, 1964, for	138,634 shares

No further options may be granted under this plan. The 1958 plan required that only previously issued shares be used to meet the stock options granted. The Company acquired sufficient shares for that purpose on the open market by the end of 1962. Shares acquired for options outstanding on December 31, 1964, cost $2,532,741. This amount is included in Prepaid Expenses and Other Assets in the Statement of Financial Condition. If all outstanding options are exercised, $2,524,437 will be returned to the Company.

1963 Plan

In 1963 the stockholders approved a new Stock Option Plan under which regular full-time employees of the Company and its subsidiaries may be granted options to purchase up to 400,000 shares of the capital stock of the Company with a limit of 5 per cent to any one employee at an option price of not less than 100 per cent of the market value on the date the option is granted. In accordance with the plan, options may be granted at any time on or before April 1, 1968, and either previously issued shares or authorized but unissued shares of the Company's capital stock may be used to meet the options.

On November 6, 1964, the Board granted options to 91 persons to purchase 124,200 shares at a price of $36.75 per share. All of these options were outstanding at the year end, none of them being exercisable until November 6, 1966; thereafter each option becomes exercisable in equal installments over the succeeding three-year period ending November 5, 1969. On December 31, 1964, there remained 275,800 shares available for the granting of options by the Board under the 1963 plan.

Consolidated Statement of Financial Condition

At December 31	1964	1963
Current Assets		
Cash	$ 10,590,906	$ 13,026,272
Marketable securities, at cost (approximate market)	24,548,573	20,295,622
Accounts receivable	69,197,390	49,213,379
Unbilled shipments and installations, at contract prices	26,776,992	22,630,901
Inventories, at lower of cost or market	93,280,264	93,451,817
Advance payments on contracts	(7,850,400)	(15,165,500)
Total Current Assets	216,543,725	183,452,491
Current Liabilities		
Accounts payable	28,001,068	17,518,324
Accrued liabilities	24,491,020	21,366,021
Cash dividends payable	3,055,488	2,622,371
Provision for additional costs on contracts	4,375,294	3,662,309
U.S. and foreign income taxes	18,911,295	18,432,306
Total Current Liabilities	78,834,165	63,601,331
Working Capital	137,709,560	119,851,160
Long-Term Receivables	13,922,896	15,799,323
Investments, at cost	1,278,193	2,621,259
Property, Plant And Equipment, at cost less accumulated depreciation and amortization: 1964—$118,583,188; 1963—$103,354,142	96,364,845	95,472,554
Prepaid Expenses And Other Assets (includes cost of shares of the Company's stock acquired for stock options: 1964—138,634 shares; 1963—167,136 shares. See page 7)	4,378,974	4,970,778
Patents	1	1
Working Capital And Other Assets	253,654,469	238,715,075
Deduct		
Long-term debt—notes payable (3⅝% and 3⅞%) due in annual installments, June 1, 1967-1974)	18,800,000	21,000,000
Minority interests in subsidiary companies	5,342,227	2,217,909
Net Assets	$229,512,242	$215,497,166
Represented By		

Capital Stock	Dec. 31, 1964	Dec. 31, 1963
Par value per share	$ 4.50	$ 9.00
Shares authorized	18,000,000	9,000,000
Shares issued	12,366,626	6,183,313

	1964	1963
Total (including $26,681,610 excess over par value—capital surplus)	$ 82,331,427	$ 82,331,427
Retained earnings	147,180,815	133,165,739
	$229,512,242	$215,497,166

Consolidated Statement of Source and Application of Funds

For the Calendar Year	1964	1963
Sources:		
Net income	$ 25,196,494	$ 21,746,926
Depreciation and amortization	12,824,732	11,227,184
Working capital of subsidiary initially consolidated. (See page 6)	5,084,243	
	43,105,469	32,974,110
Applications:		
Additions to property, plant and equipment	12,264,504	23,101,087
Cash dividends declared	12,210,822	10,479,836
Net increase (decrease) in long-term receivables	(1,876,427)	6,072,501
Reduction of long-term debt	2,200,000	2,200,000
Other (net)	448,170	1,142,145
	25,247,069	42,995,569
Net Increase (Decrease) In Working Capital	$ 17,858,400	$(10,021,459)

Consolidated Statement of Income & Retained Earnings

For the Calendar Year	1964	1963
Sales (on percentage of completion method for long-term contracts)	$430,956,751	$377,684,063
Costs and expenses:		
Materials, payrolls, services and taxes other than U.S. and foreign taxes on income	370,334,669	321,391,321
Depreciation of plants and equipment (includes amortization: 1964–$92,848; 1963–$276,005)	12,824,732	11,227,184
	383,159,401	332,618,505
Income from operations	47,797,350	45,065,558
Income from investments and marketable securities	2,223,558	2,034,600
Interest expense	(750,175)	(833,875)
Income before taxes and minority interests	49,270,733	46,266,283
U.S. and foreign taxes on income	23,480,000	24,240,000
	25,790,733	22,026,283
Income applicable to minority interests	(594,239)	(279,357)
Net income for the year	25,196,494	21,746,926
Equity in earnings of subsidiary prior to obtaining majority control	1,029,404	
	26,225,898	21,746,926
Cash dividends declared	12,210,822	10,479,836
Remainder added to retained earnings	14,015,076	11,267,090
Retained earnings at beginning of year	133,165,739	121,898,649
Retained earnings at end of year	$147,180,815	$133,165,739

Opinion of Independent Accountants

To the Stockholders and Directors of
The Babcock & Wilcox Company:

In our opinion, the accompanying consolidated statement of financial condition, the related consolidated statement of income and retained earnings and the statement of source and application of funds present fairly the financial position of The Babcock & Wilcox Company and its subsidiaries at December 31, 1964, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

New York, N.Y., February 24, 1965

Ten-Year Comparison of

Financial Condition

(in thousands of dollars)

At December 31	1964
CURRENT ASSETS	
Cash	$ 10,591
Marketable securities	24,549
Accounts receivable	69,197
Unbilled shipments and installations	26,777
Inventories	93,280
Advance payments on contracts	(7,850)
TOTAL CURRENT ASSETS	216,544
CURRENT LIABILITIES	
Notes payable	
Accounts payable	28,001
Accrued liabilities	24,491
Cash dividends payable	3,056
Provision for additional costs on contracts	4,375
U.S. and foreign income taxes	18,911
TOTAL CURRENT LIABILITIES	78,834
WORKING CAPITAL	137,710
LONG-TERM RECEIVABLES	13,922
INVESTMENTS	1,278
PROPERTY, PLANT AND EQUIPMENT	96,365
PREPAID EXPENSES AND OTHER ASSETS	4,379
WORKING CAPITAL AND OTHER ASSETS	253,654
DEDUCT	
Long-term debt	18,800
Minority interests in subsidiary companies	5,342
NET ASSETS	$229,512
REPRESENTED BY	
Capital including capital surplus	$ 82,332
Stock dividends paid January following year	
Retained earnings	147,180
	$229,512

Ten-Year Comparison of

Source and Application of Funds

(in thousands of dollars)

For the Calendar Year	1964
SOURCES:	
Net income	$ 25,196
Depreciation and amortization	12,825
Sale of capital stock	
Issuance of long-term debt	
Transfer from pension reserve	
Working capital of subsidiary initially consolidated	5,084
	43,105
APPLICATIONS:	
Additions to property, plant and equipment	12,265
Cash dividends declared	12,211
Net increase (decrease) in long-term receivables	(1,877)
Reduction of long-term debt	2,200
Other (net)	448
	25,247
NET INCREASE (DECREASE) IN WORKING CAPITAL	$ 17,858

1963	1962	1961	1960	1959	1958	1957	1956	1955
$ 13,026	$ 9,169	$ 10,771	$ 12,887	$ 9,531	$ 11,764	$ 12,873	$ 14,578	$ 14,184
20,296	41,837	55,889	48,682	29,987	11,686	4,729	1,999	8,805
49,213	49,726	54,218	53,133	59,726	52,514	45,686	39,394	34,198
22,631	17,850	17,453	15,580	21,688	29,533	20,200	10,161	10,925
93,452	87,632	72,151	66,188	63,357	76,939	104,504	91,486	56,996
(15,166)	(20,142)	(13,752)	(13,205)	(10,608)	(11,226)	(12,168)	(9,427)	(2,232)
183,452	186,072	196,730	183,265	173,681	171,210	175,824	148,191	122,876
		2,200	2,200					
17,518	14,470	9,817	11,192	12,678	12,991	10,838	12,270	9,394
21,366	20,285	17,563	15,911	16,950	15,436	14,922	12,186	9,045
2,622	2,434	2,443	2,135	1,832	1,520	1,472	1,286	1,225
3,662	2,795	2,000	1,603	2,611	3,913	3,315	1,762	2,803
18,433	16,215	16,183	13,060	12,157	12,312	14,975	13,867	15,109
63,601	56,199	50,206	46,101	46,228	46,172	45,522	41,371	37,576
119,851	129,873	146,524	137,164	127,453	125,038	130,302	106,820	85,300
15,799	9,727							
2,621	868	1,044	723	604	604	604	1,600	1,600
95,473	83,679	68,406	70,925	73,390	67,867	56,741	49,830	40,657
4,971	4,759	3,930	4,097	3,472	1,890	734	1,058	748
238,715	228,906	219,904	212,909	204,919	195,399	188,381	159,308	128,305
21,000	23,200	25,400	29,800	32,000	32,000	32,000	32,000	10,000
2,218	1,476	1,375	1,372	1,367	1,350	1,261	1,158	1,091
$215,497	$204,230	$193,129	$181,737	$171,552	$162,049	$155,120	$126,150	$117,214
$ 82,332	$ 82,332	$ 82,332	$ 82,332	$ 82,332	$ 80,339	$ 73,338	$ 46,311	$ 38,760
					1,993	7,000	8,760	7,470
133,165	121,898	110,797	99,405	89,220	79,717	74,782	71,079	70,984
$215,497	$204,230	$193,129	$181,737	$171,552	$162,049	$155,120	$126,150	$117,214

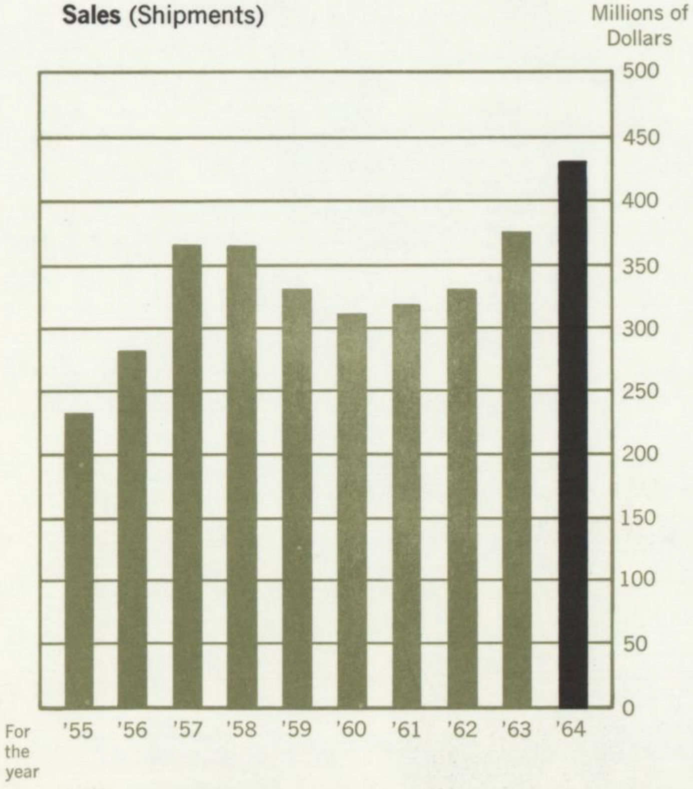
1963	1962	1961	1960	1959	1958	1957	1956	1955
$ 21,747	$ 20,860	$ 20,241	$ 17,817	$ 15,938	$ 13,035	$ 16,456	$ 14,081	$ 13,487
11,227	10,335	8,673	8,543	7,650	7,013	6,779	6,699	6,249
						18,267		
							22,000	
								2,250
32,974	31,195	28,914	26,360	23,588	20,048	41,502	42,780	21,986
23,101	25,662	6,188	6,105	13,183	18,162	13,708	15,921	12,640
10,480	9,759	8,849	7,632	6,435	6,107	5,753	5,146	4,901
6,072	9,727							
2,200	2,200	4,400	2,200					
1,143	498	117	712	1,555	1,043	(1,441)	193	114
42,996	47,846	19,554	16,649	21,173	25,312	18,020	21,260	17,655
$(10,022)	$(16,651)	$ 9,360	$ 9,711	$ 2,415	$ (5,264)	$ 23,482	$ 21,520	$ 4,331

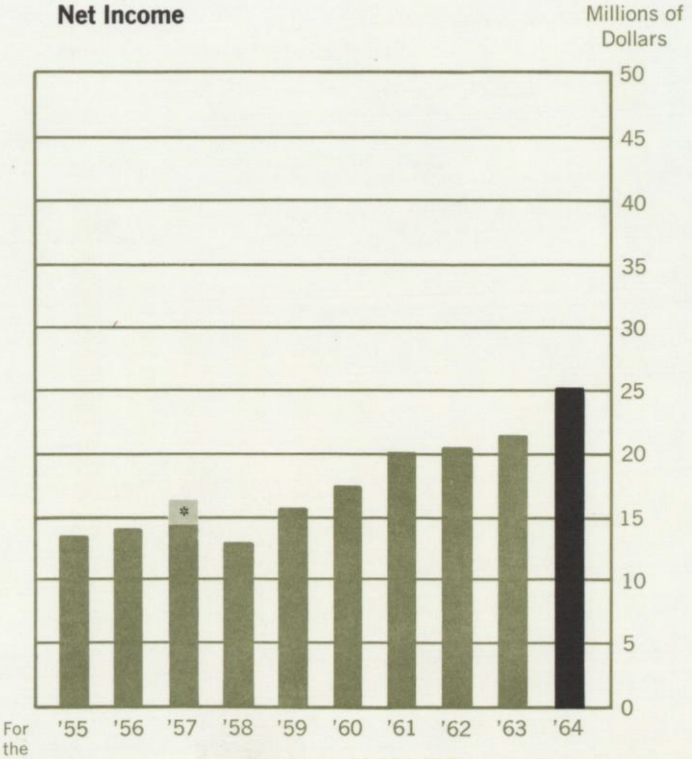
Ten-Year Comparison of

Income & Retained Earnings

(in thousands of dollars)

For the Calendar Year	1964
Sales (on percentage of completion method for long-term contracts)	$430,957
Costs and expenses:	
Materials, payrolls, services and taxes other than U.S. and foreign taxes on income	370,335
Depreciation and amortization	12,825
	383,160
Income from operations	47,797
Income from investments and marketable securities	2,224
Interest expense	(750)
Income before taxes and minority interests	49,271
U.S. and foreign taxes on income	23,480
	25,791
Income applicable to minority interests	(595)
Extraordinary gain less related taxes	
Net income for the year	25,196
Equity in earnings of subsidiary prior to obtaining majority control	1,030
	26,226
Dividends declared:	
Cash	12,211
Stock—1% in 1958, 4% in 1957 and 1956, 5% in 1955	
	12,211
Remainder added to retained earnings	14,015
Retained earnings at beginning of year	133,165
Transfer to capital stock	
Transfer from pension reserve	
Retained earnings at end of year	$147,180

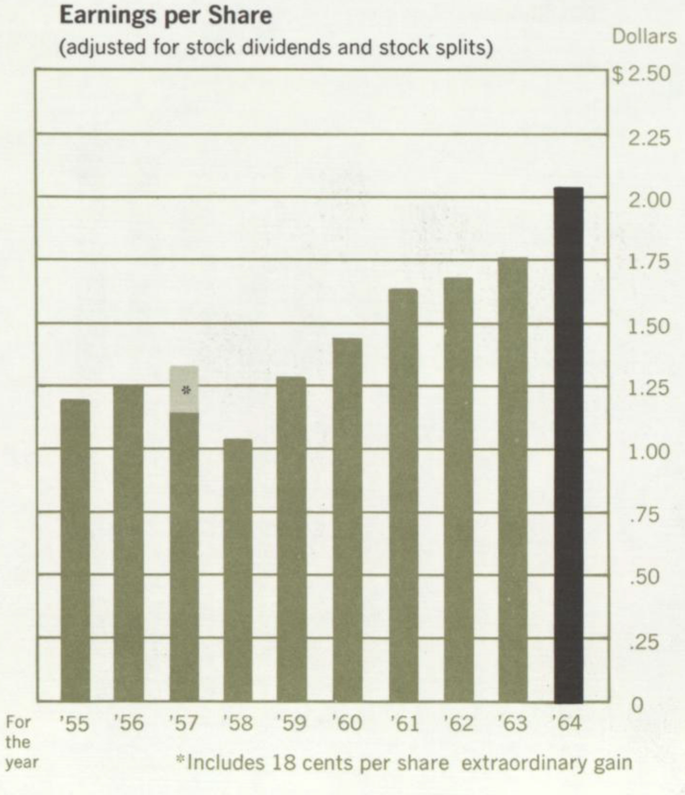

Sales (Shipments)


Net Income

*Includes $2,250,000 extraordinary gain

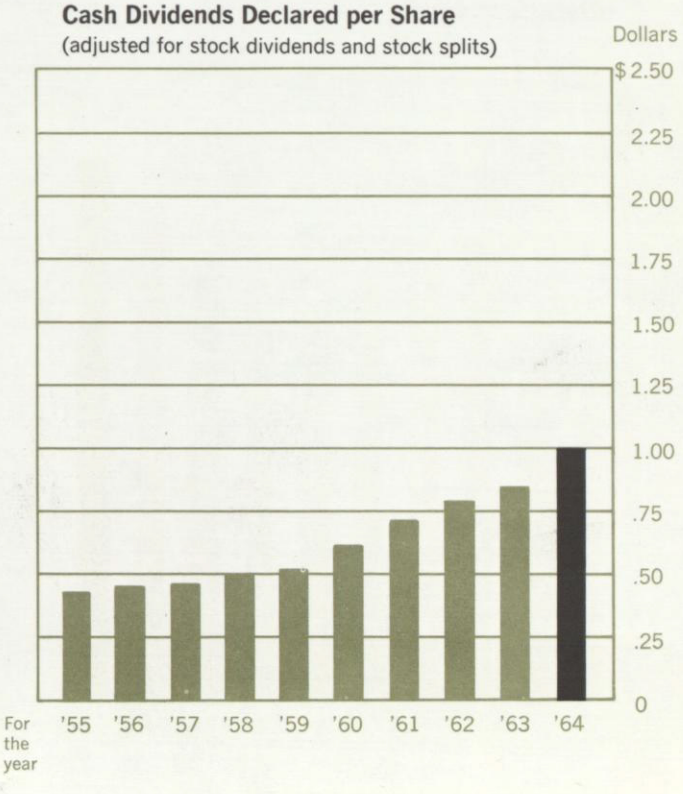
1963	1962	1961	1960	1959	1958	1957	1956	1955
$377,684	$330,574	$319,353	$310,999	$332,071	$365,941	$366,081	$281,485	$233,291
321,392	277,245	268,721	266,749	291,058	329,221	326,375	244,890	197,006
11,227	10,335	8,673	8,543	7,650	7,013	6,779	6,699	6,249
332,619	287,580	277,394	275,292	298,708	336,234	333,154	251,589	203,255
45,065	42,994	41,959	35,707	33,363	29,707	32,927	29,896	30,036
2,035	2,068	2,283	2,011	1,509	462	386	562	515
(834)	(952)	(1,120)	(1,218)	(1,218)	(1,218)	(1,238)	(854)	(354)
46,266	44,110	43,122	36,500	33,654	28,951	32,075	29,604	30,197
24,240	23,000	22,580	18,380	17,430	15,640	17,630	15,320	16,520
22,026	21,110	20,542	18,120	16,224	13,311	14,445	14,284	13,677
(279)	(250)	(301)	(303)	(286)	(276)	(239)	(203)	(190)
						2,250		
21,747	20,860	20,241	17,817	15,938	13,035	16,456	14,081	13,487
21,747	20,860	20,241	17,817	15,938	13,035	16,456	14,081	13,487
10,480	9,759	8,849	7,632	6,435	6,107	5,753	5,146	4,901
					1,993	7,000	8,760	7,470
10,480	9,759	8,849	7,632	6,435	8,100	12,753	13,906	12,371
11,267	11,101	11,392	10,185	9,503	4,935	3,703	175	1,116
121,898	110,797	99,405	89,220	79,717	74,782	71,079	70,984	67,618
							(80)	
								2,250
$133,165	$121,898	$110,797	$ 99,405	$ 89,220	$ 79,717	$ 74,782	$ 71,079	$ 70,984

Earnings per Share
(adjusted for stock dividends and stock splits)



*Includes 18 cents per share extraordinary gain

Cash Dividends Declared per Share
(adjusted for stock dividends and stock splits)



Ten-Year Comparison of

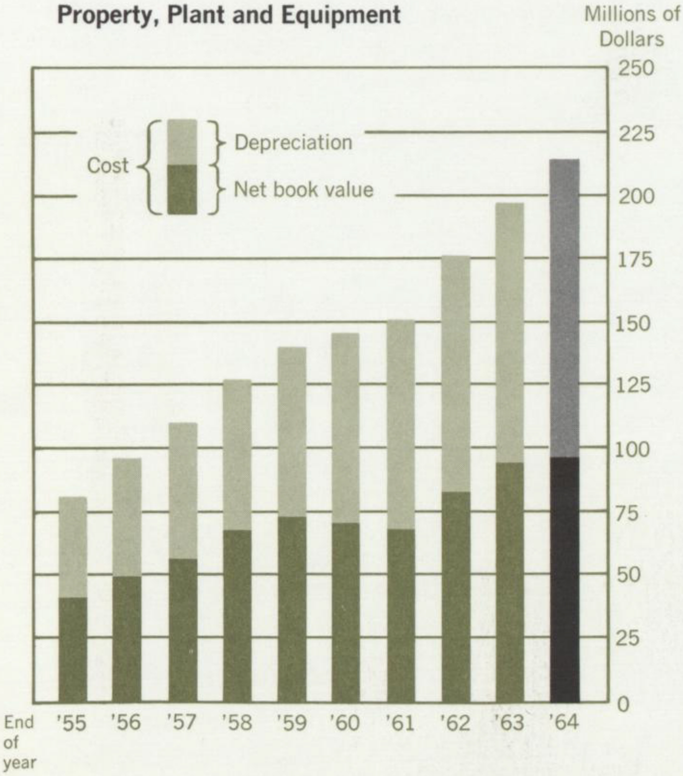
Property, Plant & Equipment

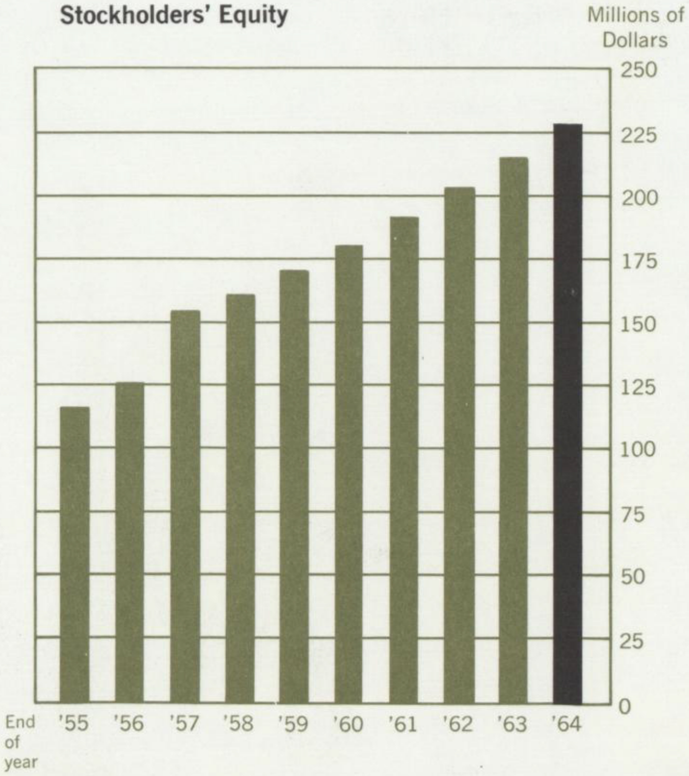
(in thousands of dollars)

At December 31	1964
COST	
At beginning of year	$198,827
Expenditures during year	12,265
Other additions—initial consolidation of subsidiary	5,177
Retired or sold during year	(1,321)
At end of year	214,948
DEPRECIATION AND AMORTIZATION	
At beginning of year	103,354
Charged to operations during year	12,825
Accumulated—initial consolidation of subsidiary	3,613
Accumulated on property retired or sold during year	(1,209)
At end of year	118,583
NET BOOK VALUE	$ 96,365

Statistics

	1964
Income from operations before taxes—% of sales	11.1%
Net income for year—% net worth first year	11.7%
Orders received—thousands of dollars	$525,814
Unfilled orders—thousands of dollars	$467,523
Shares issued during year: Stock dividend	
Stock split	6,183,313
Stock sold	
Shares issued end of year	12,366,626
Per share issued (adjusted for stock dividends and stock splits—12,366,626 shares in 1957-1964 inclusive and 11,242,388 in previous years)	
Income for year	$ 2.04
Cash dividends declared	1.00
Stockholders' equity	18.56

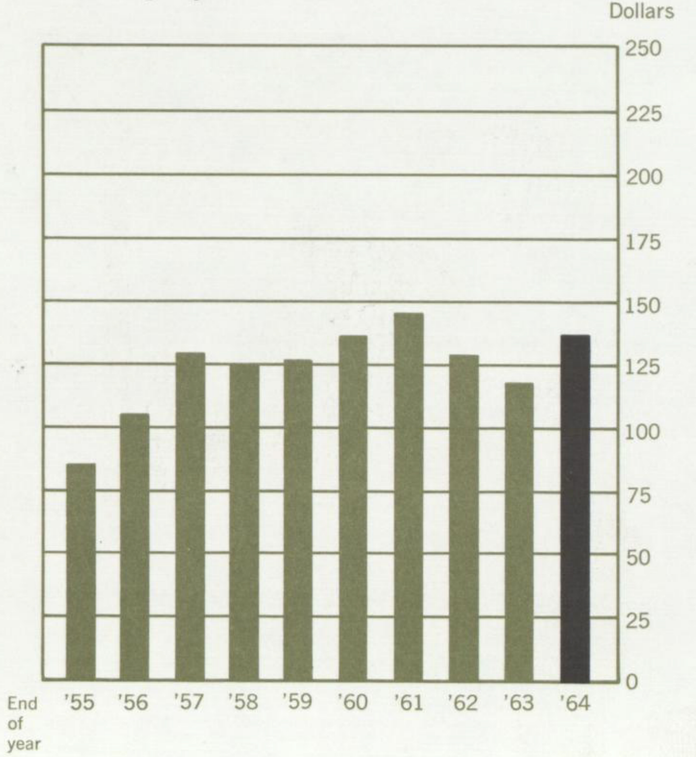

Property, Plant and Equipment


Stockholders' Equity

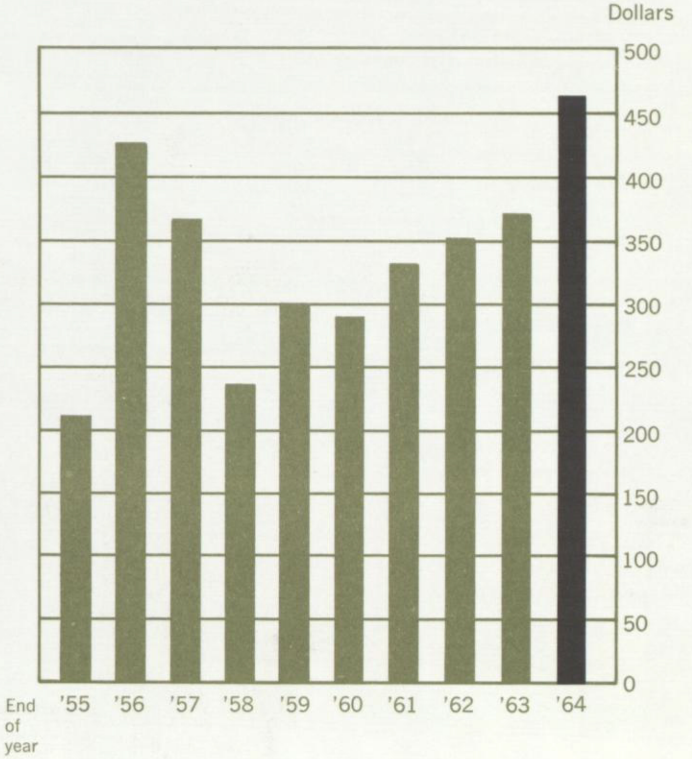
1963	1962	1961	1960	1959	1958	1957	1956	1955
$176,502	$151,518	$146,140	$140,587	$127,800	$110,291	$ 97,311	$ 82,215	$ 70,117
23,101	25,662	6,188	6,105	13,183	18,162	13,708	15,921	12,640
(776)	(678)	(810)	(552)	(396)	(653)	(728)	(825)	(542)
198,827	176,502	151,518	146,140	140,587	127,800	110,291	97,311	82,215
92,823	83,112	75,215	67,197	59,933	53,550	47,481	41,558	35,828
11,227	10,335	8,673	8,543	7,650	7,013	6,779	6,699	6,249
(696)	(624)	(776)	(525)	(386)	(630)	(710)	(776)	(519)
103,354	92,823	83,112	75,215	67,197	59,933	53,550	47,481	41,558
$ 95,473	$ 83,679	$ 68,406	$ 70,925	$ 73,390	$ 67,867	$ 56,741	$ 49,830	$ 40,657

1963	1962	1961	1960	1959	1958	1957	1956	1955
11.9%	13.0%	13.1%	11.5%	10.0%	8.1%	9.0%	10.6%	12.9%
10.6%	10.8%	11.1%	10.4%	9.8%	8.4%	13.0%	12.0%	12.7%
$398,990	$348,907	$361,285	$301,146	$395,540	$236,201	$306,072	$495,257	$317,283
$372,666	$351,360	$333,027	$291,095	$300,948	$237,479	$367,219	$427,228	$213,456
				61,220	235,465	205,826	81,677	77,787
							3,430,436	
						535,148		
6,183,313	6,183,313	6,183,313	6,183,313	6,183,313	6,122,093	5,886,628	5,145,654	1,633,541
$ 1.76	$ 1.69	$ 1.64	$ 1.44	$ 1.29	$ 1.05	$ 1.33	$ 1.25	$ 1.20
.86	.80	.73	.63	.53	.50	.47	.46	.44
17.43	16.51	15.62	14.70	13.87	13.10	12.54	11.22	10.43

Working Capital



Unfilled Orders

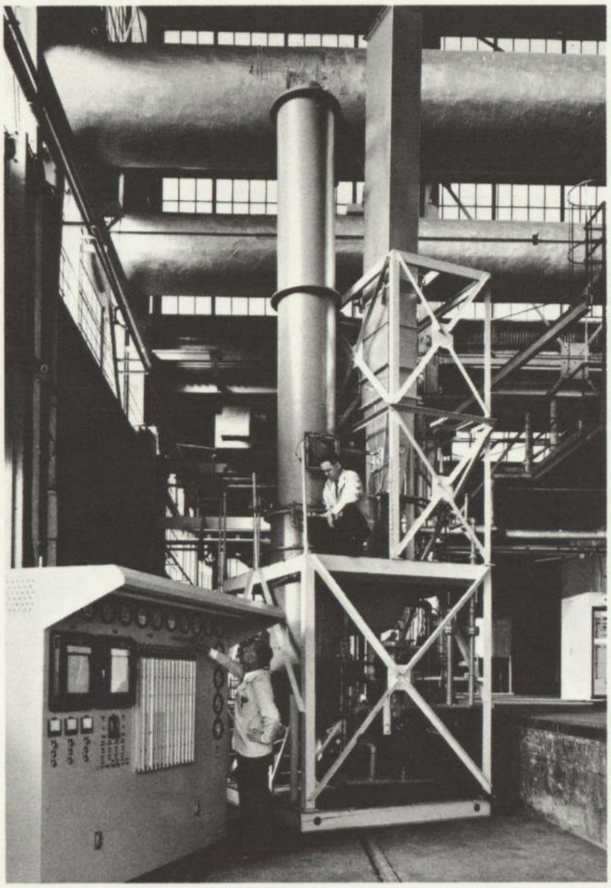


Research and Development Division

Throughout The Babcock & Wilcox Company's 97-year history, the determined search for deeper knowledge and new ideas has had a strong influence on the Company's success. In reporting on the accomplishments of B&W's operating divisions and its subsidiaries during 1964, therefore, a most appropriate starting point is the Research and Development division, which serves the entire Company in this traditionally vital area.

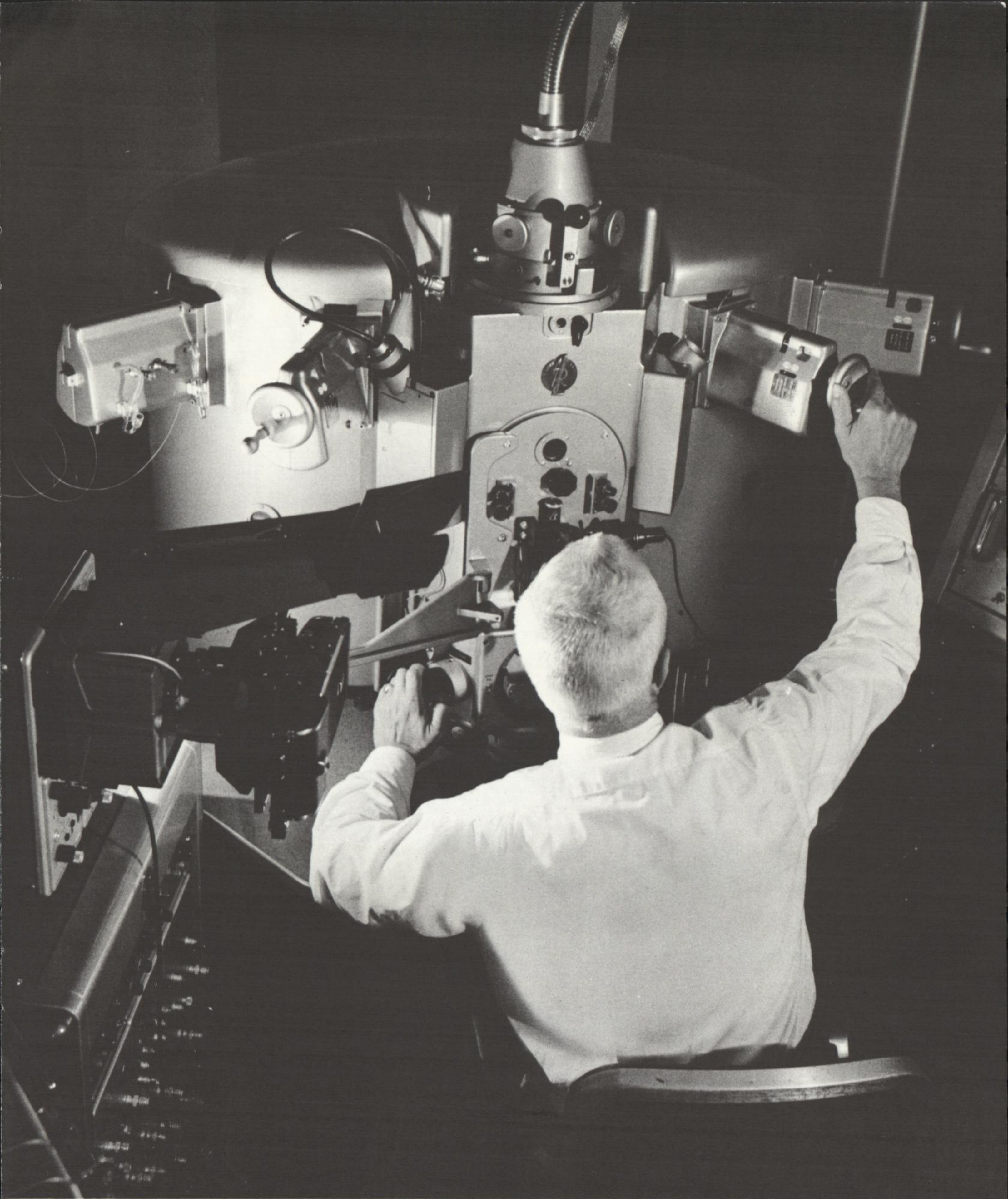
Research activities are concentrated at the B&W Research Center in Alliance, Ohio, and the new Nuclear Development Center in Lynchburg, Va. These facilities bring together technical specialists and scientific equipment which could not be economically duplicated elsewhere in the Company. When the basic research phases of a project are successfully completed, it is transferred to the appropriate division or subsidiary for practical developing and marketing.

Since its founding in 1867, B&W has expanded into many areas, and current research and development activities are leading to more growth opportunities. Among them are high temperature ceramic fibers, integrated electronic control systems, air pollution control, and utilization of thorium as a nuclear fuel in place of uranium. Progress is also being made in improving the performance and economy of existing products and the efficiency of manufacturing operations.



Pilot model of gas cleanup system developed at Alliance, Ohio, Research Center. The unit is designed to take advantage of the rapidly growing market for equipment which helps reduce atmospheric pollution.

Company's executives on tour of Research Center discuss progress of heat exchanger development program.



A deeper knowledge of materials is essential to development of more advanced products. Its attainment requires modern, highly sensitive equipment, such as the electron beam microprobe above. This instrument is used at the Research Center to study alloys, corrosion, hot workability, joining and other metallurgical problems.

Boiler Division

The Boiler division has pioneered in designing and manufacturing steam generating equipment for power production and industrial processing for nearly a century. Its goal is the most efficient and economical utilization of heat from any fuel. In addition, it has become a leading source of heavy pressure vessels and other heavy duty components, and special production machinery for a wide variety of industrial uses.

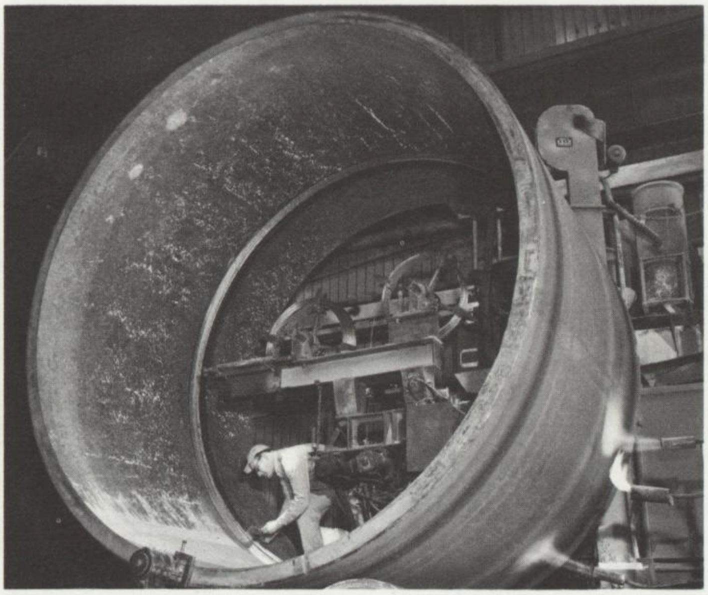
Sales of the Company's Universal Pressure (UP) steam generating system continue at record levels. Thirteen contracts were received in 1964 for 16 UP's in the United States and abroad. Total UP sales to date: 49 units serving nearly 22-million kilowatts of capacity.

The $11-million expansion at the division's Mount Vernon, Ind., Works will provide B&W with the capacity to build unprecedentedly large, heavy walled pressure vessels for nuclear, chemical and aerospace uses. The investment is consistent with B&W's program to extend its unique human, technological and productive resources to the exacting job of supplying nuclear power systems and other complex equipment.

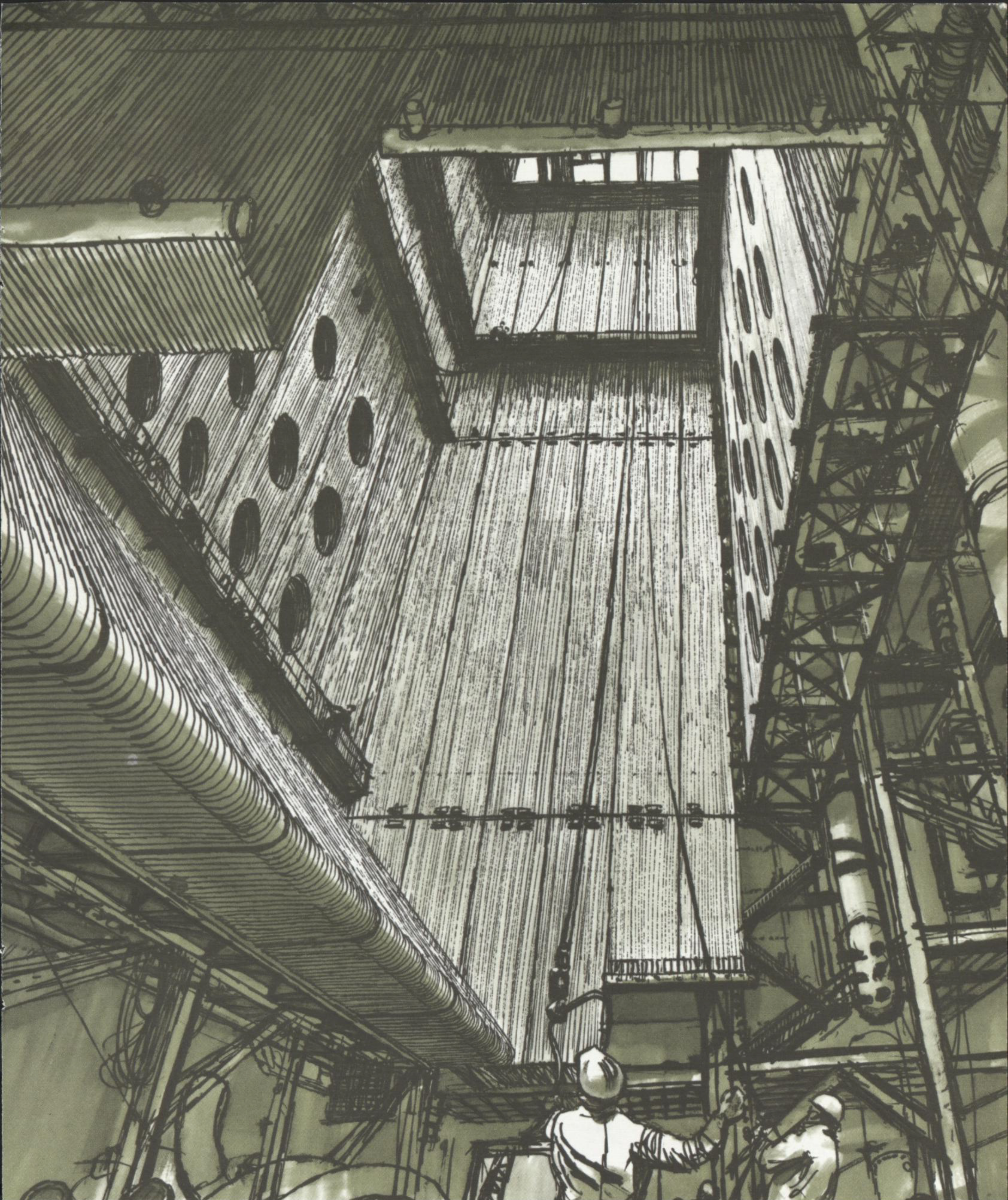
Other products and applications arising from the division's engineering know-how are the B&W "Cyclopak," the world's largest package boiler, contra-rotation coal pulverizers and the "Lamiflow" regenerative air heater.

In the service field, the division's erection department expanded its domestic and international activities to the installation of large mechanical equipment and other non-boiler work.

Construction is well under way on $11-million expansion of Company's recently established plant at Mount Vernon, Ind. It will provide capacity to meet demand for the heavy components which will be required for nuclear and other uses.



B&W continues to invest in facilities to fill the need for large pressure vessels and other special products for many industries. At right is a single section, over 3 inches thick and 12 feet across, which will be part of a refinery vessel 91 feet long.



Workmen are dwarfed by the cavernous furnace chamber of a UP boiler B&W is building for a major New England utility. Towering 16 stories, the boiler will unleash the heat energy of 22,800 gallons of fuel oil every hour to generate 2,400,000 pounds of steam. Such Company developments as furnace wall assembly in the factory have made important savings in construction time and costs for these mammoth units.

Atomic Energy Division

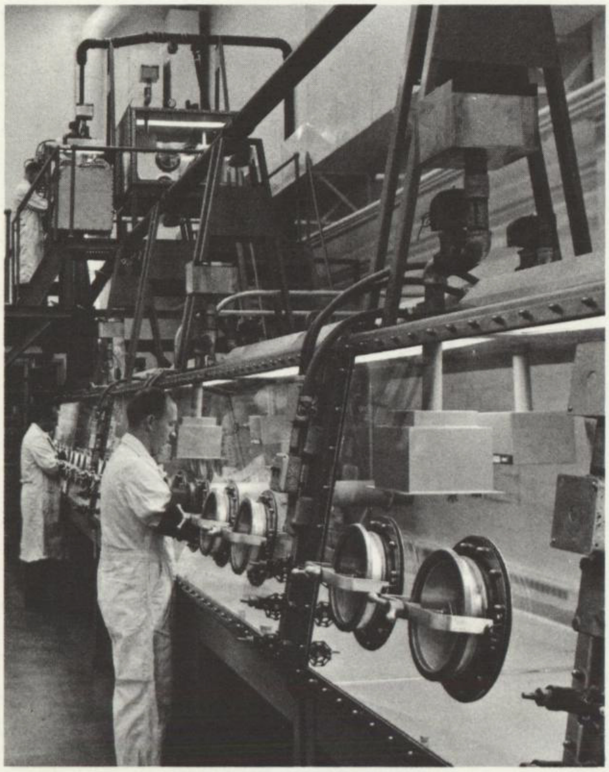
Although it is less than a dozen years old, B&W's Atomic Energy division has won worldwide recognition as a pioneer and innovator in applying the atom to peaceful power uses. Today it is engaged in designing, developing and testing complete nuclear systems for stationary and marine applications.

The Company embarked in 1964 on a program with the East Central Nuclear Group (ECNG) of 14 electric utilities serving the Ohio Valley and surrounding areas to develop a reactor, cooled by steam, which will produce more fuel than it consumes. Its goal is to bring nuclear generating plants into widespread competition with fossil fuel-burning units.

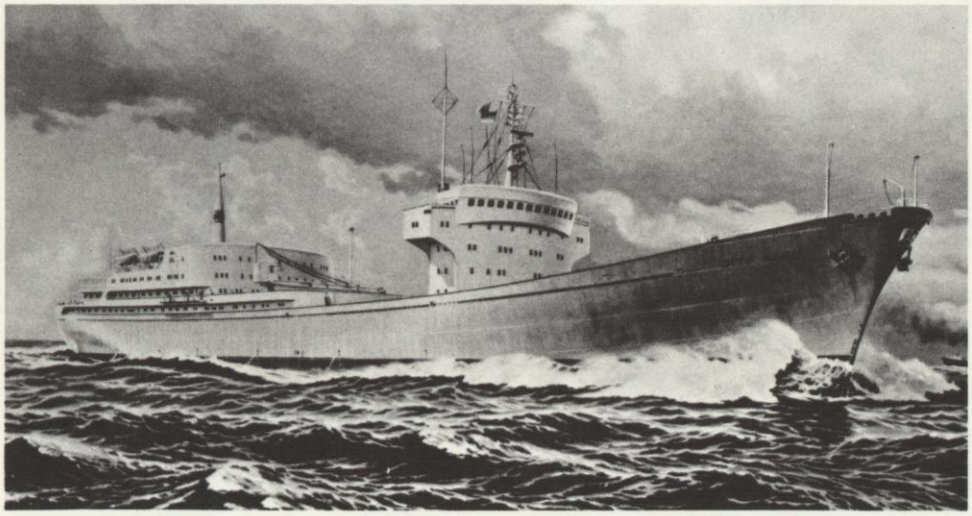
Work continued on the development of the thorium-uranium 233 fuel cycle. Thorium, the nation's most abundant fertile material, is regarded by the U.S. Atomic Energy Commission as a vital fuel source for future atomic plants.

Another 1964 development was the new pressurized water reactor with integral once-through boiler. Available for immediate application, the design is based on experience gained from earlier B&W reactors of the same basic type, and the highly successful once-through Universal Pressure steam generating system.

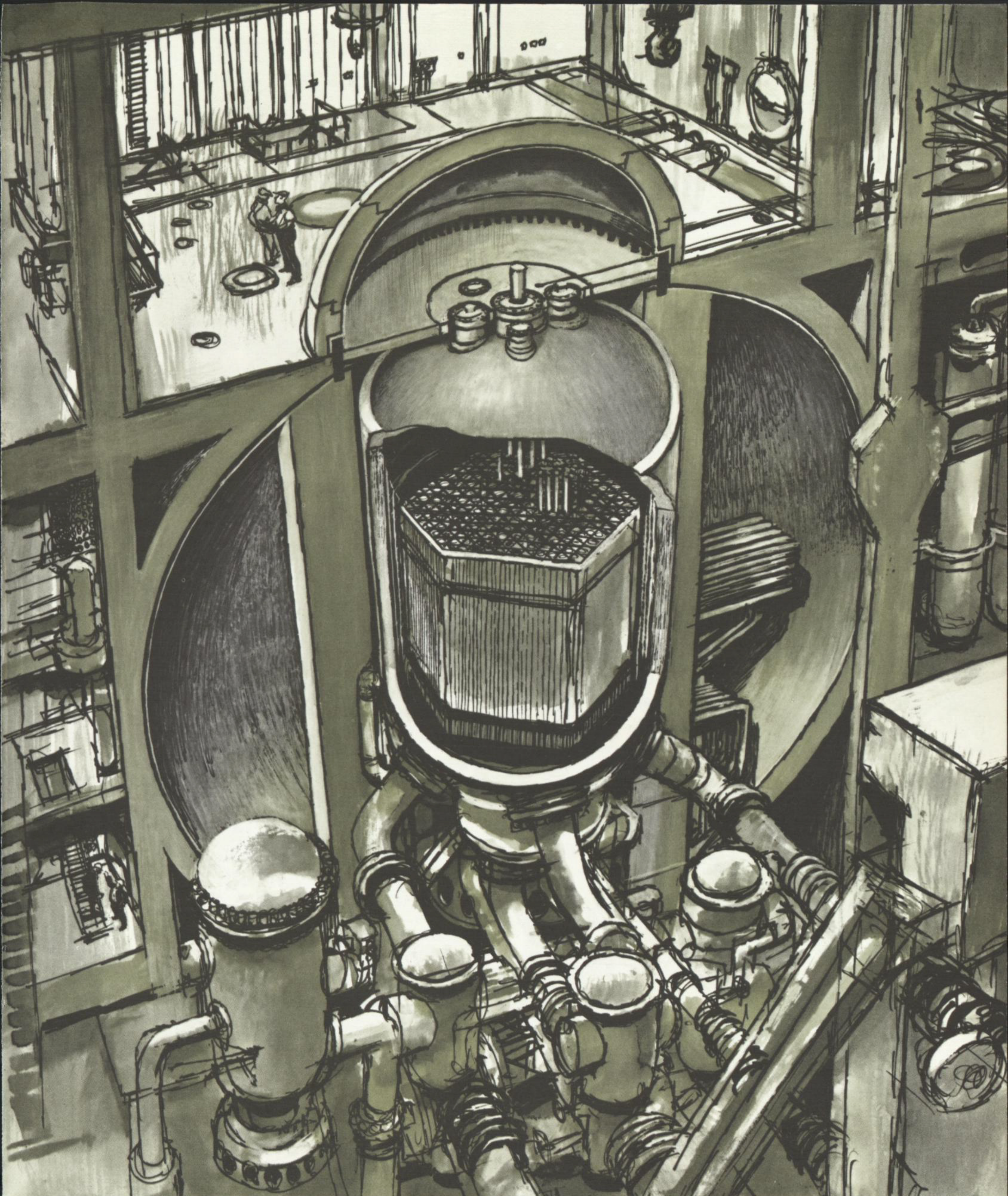
B&W is also offering a pressurized water reactor utilizing spectral shift control. The concept provides one of the most economical methods of controlling the release of nuclear energy.



B&W has built some of the nation's outstanding facilities to support its continuing research and development programs in the nuclear area. Unit shown above is in Nuclear Development Center, Lynchburg, Va. It permits employees to handle radioactive materials in safety.

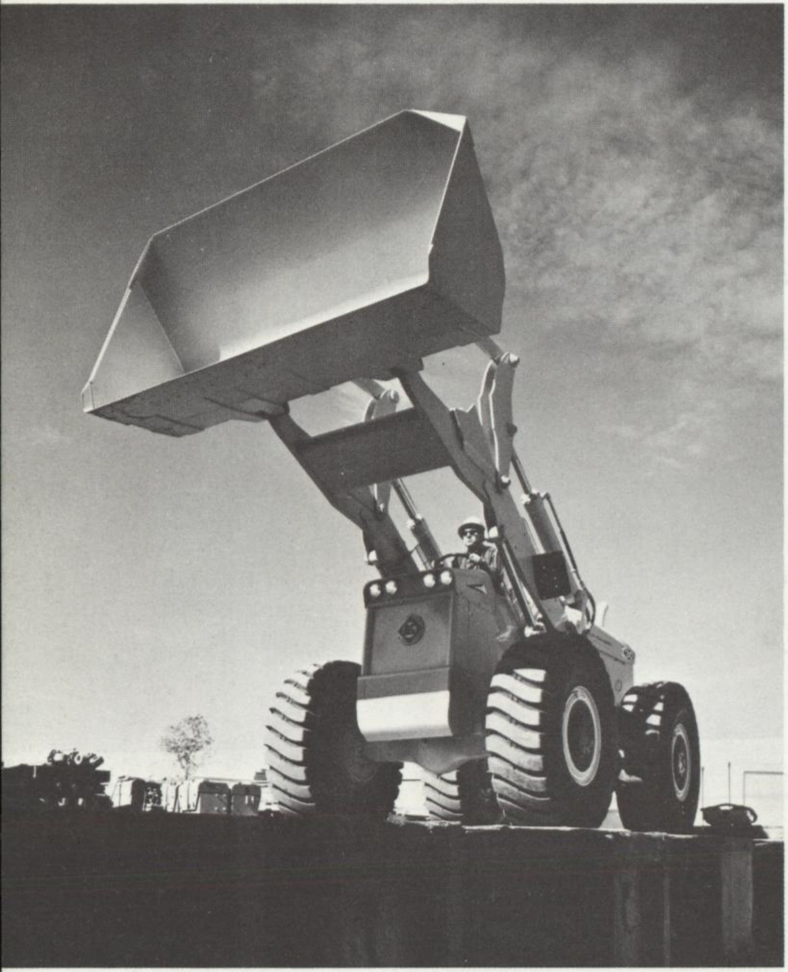


B&W continues its leading role in developing economical nuclear power for marine use. Reactor of Europe's first atomic merchant ship, OTTO HAHN, shown in artist's rendering, will be based on Company's Consolidated Nuclear Steam Generator (CNSG).



Anticipating future depletion of uranium reserves, B&W and a group of 14 Midwest utilities are investigating many concepts of a reactor which will breed more fuel than it consumes while generating electricity at low cost. Artist's visualization above, based on preliminary engineering drawings, shows how such a reactor might appear. The hexagonal fuel core in the center would create by-products useful as new fuel after processing.

Tubular Products Division



B&W's special-tolerance tubing is a key item in this front-end loader and other vehicles for consumer, industrial and agricultural use.

The Tubular Products division is one of America's important producers of specialty steel tubing, welding fittings, rolled rings, and extrusions, for use in consumer and industrial goods.

Seamless tubing is produced in its Beaver Falls, Pa., and Milwaukee, Wis., facilities, and welded tubing at its plant in Alliance, Ohio.

In the past three years, more than $22-million has been spent to improve the division's manufacturing and production efficiency. The bulk of the funds has gone into the division's Koppel steel plant, near Beaver Falls.

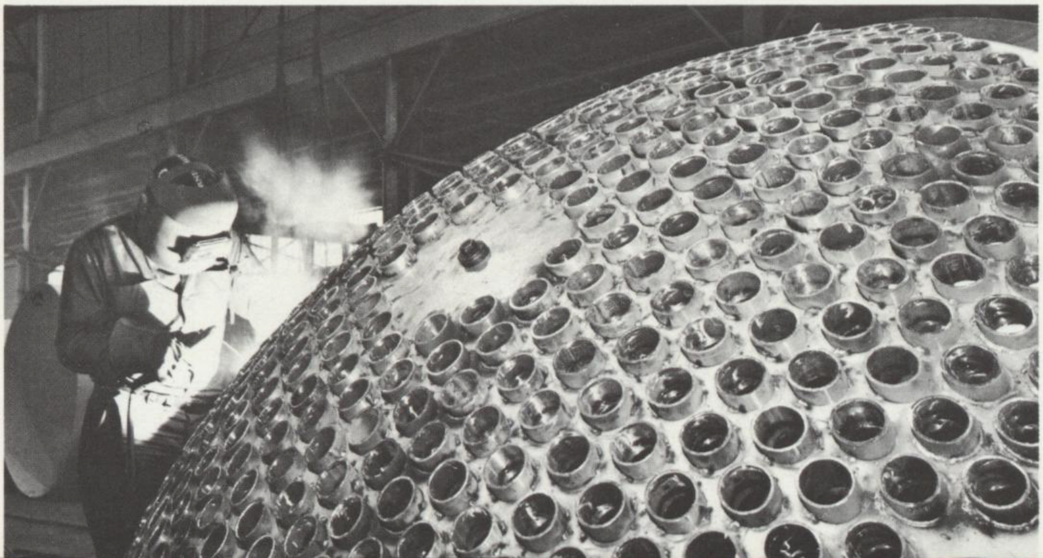
The latest step in the division's long-range manufacturing integration program is the country's first car-type ladle vacuum degassing installation, at Koppel. In 1964 it began producing on a regular basis the highest quality of steel for a wide variety of exacting end uses.

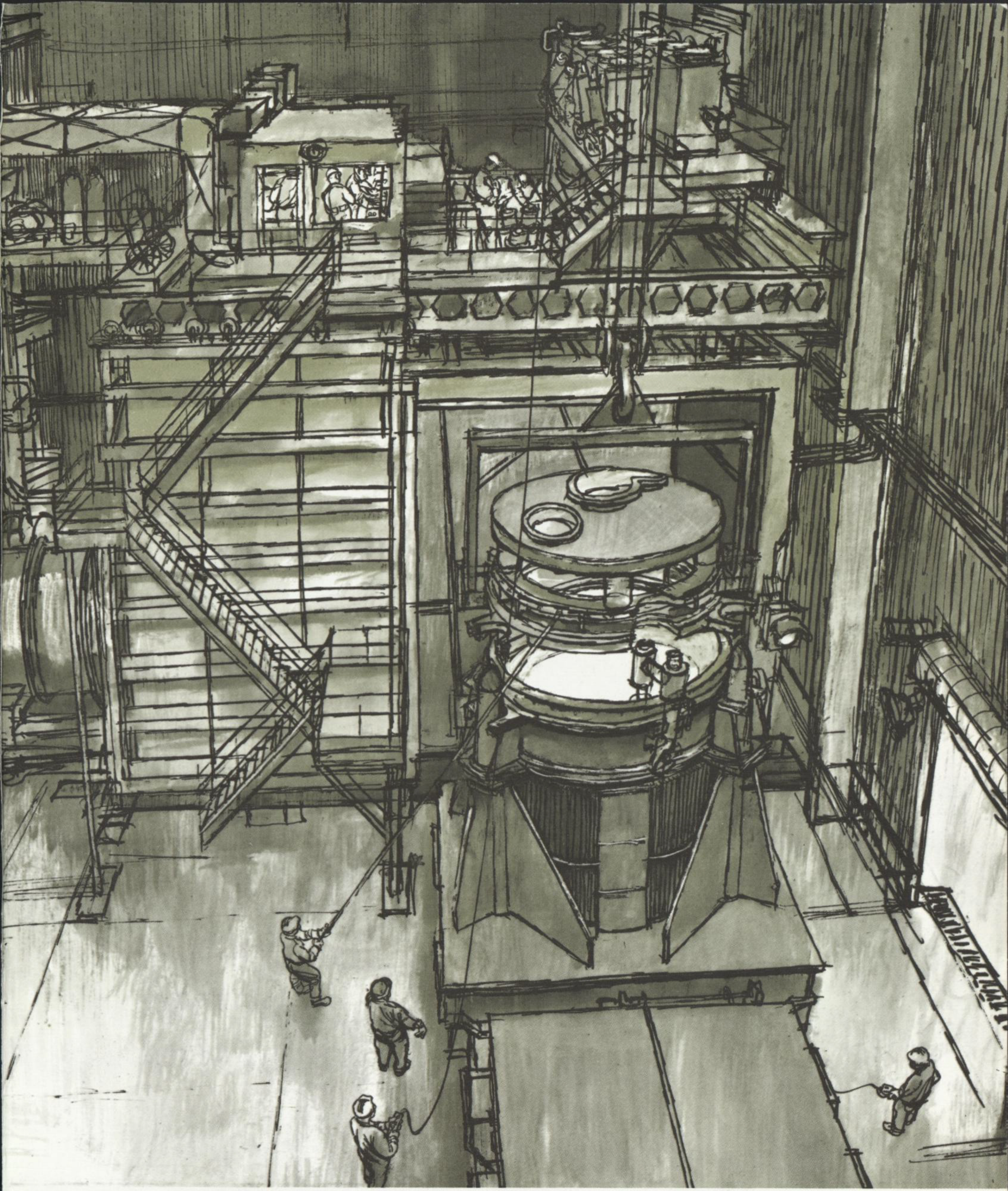
The $13-million addition to the Koppel steel plant also had its first full year of operation in 1964. It comprises another large electric furnace, a rolling mill and complementary equipment. The plant, as planned, has provided additional capacity and capability to contribute to the Company's competitive position in the tubular products market.

Installation of the most modern and efficient welding equipment at the division's Alliance plant has resulted in a greater diversity of welded tubular products at lower costs.

During the year, $3.4-million was appropriated for further expansion of steelmaking and ring-rolling facilities. The latter will permit the Company to produce rings in diameters up to 28 inches for an increasing number of industrial applications.

Three different analyses of B&W seamless steel tubing—one for each of three temperature zones—were used in this unusual waste heat recuperator. It is part of a large hot-blast cupola installed in a steel mill.





Vacuum degassing is newest advance in production of high quality steel. Start of process at Tubular Products division's Koppel, Pa., plant is depicted here. The 100-ton ladle of molten metal is rolled into chamber at rear, where pressure is reduced to 1/15,000th of atmospheric pressure. This nearly perfect vacuum draws gases from the melt. Result: some of nation's highest quality steel.

Bailey Meter Company

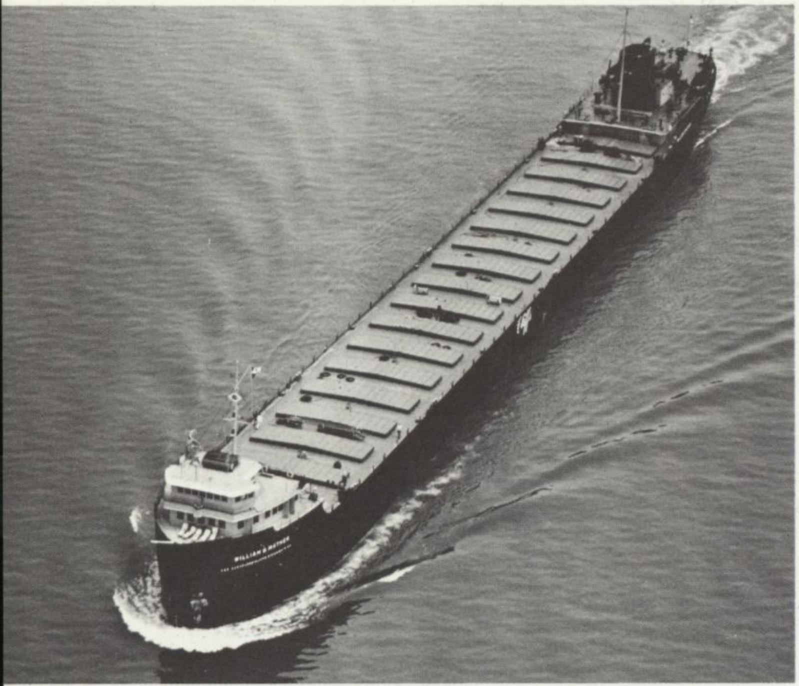
Bailey Meter Company was founded in 1916 to supply instruments to aid public utilities and process industries in obtaining optimum performance from their equipment. Bailey manufactures an extensive line of pneumatic and electronic instruments and related products for information, computing and control functions.

Last year, Bailey made two major penetrations into a still-new technological area which holds great promise for future sales and profits —the automation of power systems and industrial plants:

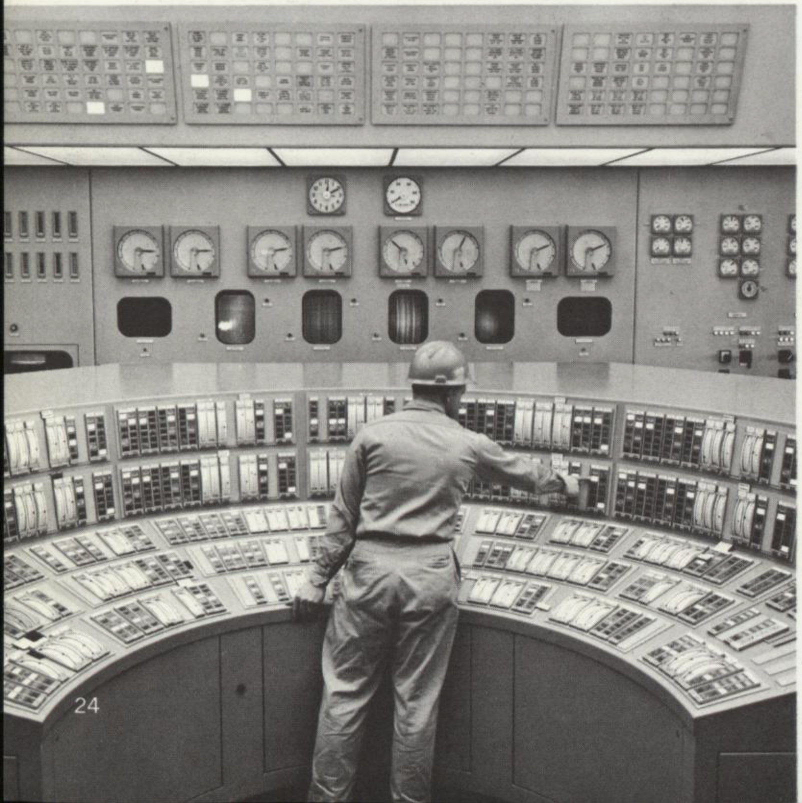
- For electric utilities, Bailey introduced its new 700 Multi-Computer Control System, which places complete "push-button" automation of central station power plants on a practical basis for the first time.
- For marine boilers, Bailey unveiled a new automatic control system. It offers significant savings in fuel, maintenance and other costs, and improves boiler safety and reliability. Savings projected for a Great Lakes iron ore steamer in which it is already operating run as high as $1-million during the vessel's lifetime.

Other 1964 highlights at Bailey Meter were:

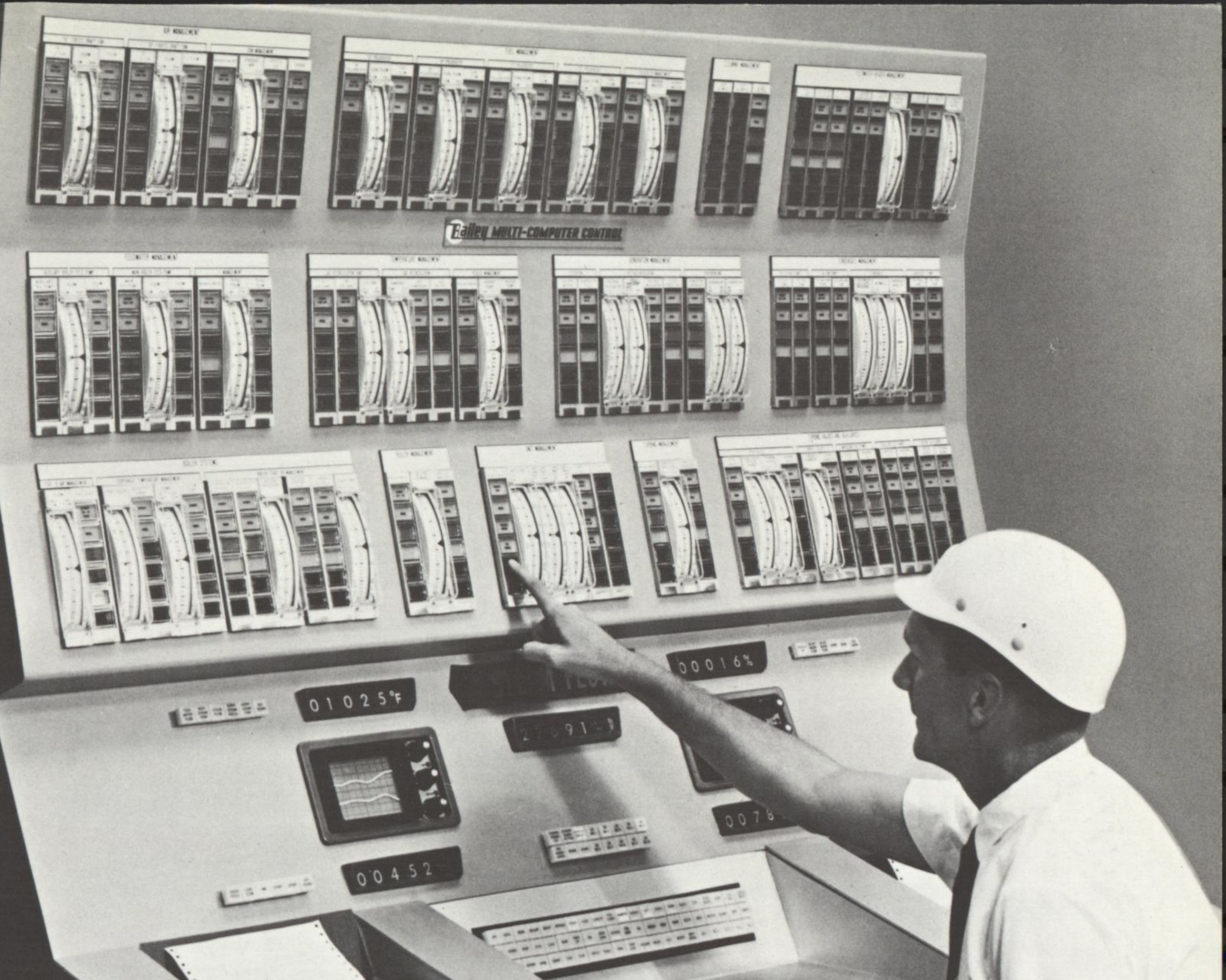
- Installation of the first successful automatic burner control for pulverized coal firing, at a large midwestern power station.
- Development of a complete, miniaturized pneumatic control for the power and process industries. Advantages: simple design, easy installation and adjustment to a variety of uses.
- Development and marketing of the Bailey 721 electronic analog control for power and process industries. It features high reliability and integrated standardized components which can meet the requirements of any process.



S.S. WILLIAM G. MATHER is the first United States steamship to receive Coast Guard certificate permitting operation without a fireman. It is equipped with Bailey Meter's new automatic control system for oil-fired marine boilers.



Bailey Meter Company's 721 electronic analog control is one of several important developments of 1964. Used for numerous sub-systems, it works integrally with digital systems to make complete automation possible.



A significant advance because it makes complete power plant automation practical is Bailey's 700 Multi-Computer Control System. Introduced during the year, it has an operator-oriented control console to simplify communication between operator and unit.

Refractories Division

The Refractories division was established in 1921 to supply B&W with the high grade firebrick and other refractories essential to quality boilers. Although technical advances have all but eliminated these products from today's high capacity boilers, the division has found even larger markets in the industrial furnace field and other areas.

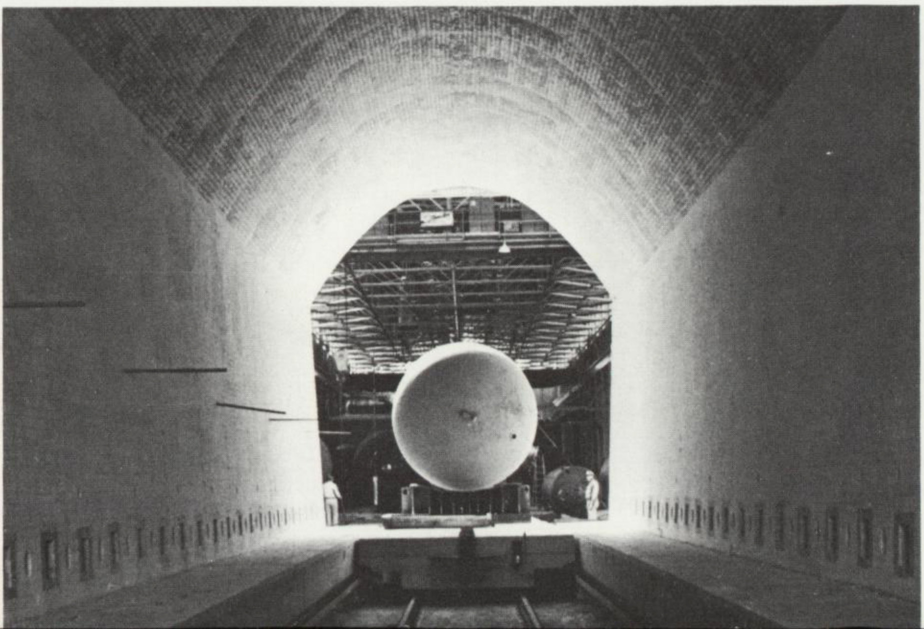
In 1964, it marketed several new products. One was "Insulpure," which lowers the cost of atmosphere-resistant furnace linings. An extremely pure insulating firebrick, it can be used in special reducing atmospheres to temperatures of 2800 degrees Fahrenheit for such applications as high temperature sintering and heat treating.

Demand for Kaowool, the Company's versatile, high temperature, alumina-silica ceramic fiber, grew so fast during the year that new facilities were built to triple its output.

To insure a continued supply of quality clay for its refractory production, B&W purchased a kaolin clay mine 18 miles from division headquarters at Augusta, Ga. This source also will enable B&W to diversify by supplying clay to other industries.

Last year, the division completed a new calcine crushing line to obtain flexibility in preparing raw material, completed installation of an automated low temperature insulating brick molding and kiln setting machine, and started full production in a new unit for large refractory tubes used in pressure casting of steel.

Kaowool production facilities at Augusta, Ga., were recently enlarged to triple production. This versatile ceramic fiber can be used at temperatures up to 2300 degrees Fahrenheit.



The world's largest car-bottom stress relieving furnace, at Shreveport, La., is lined with thousands of B&W K-20 Insulating Firebrick, which, if placed end-to-end, would stretch a distance of 17½ miles.

Diamond Power Specialty Corporation

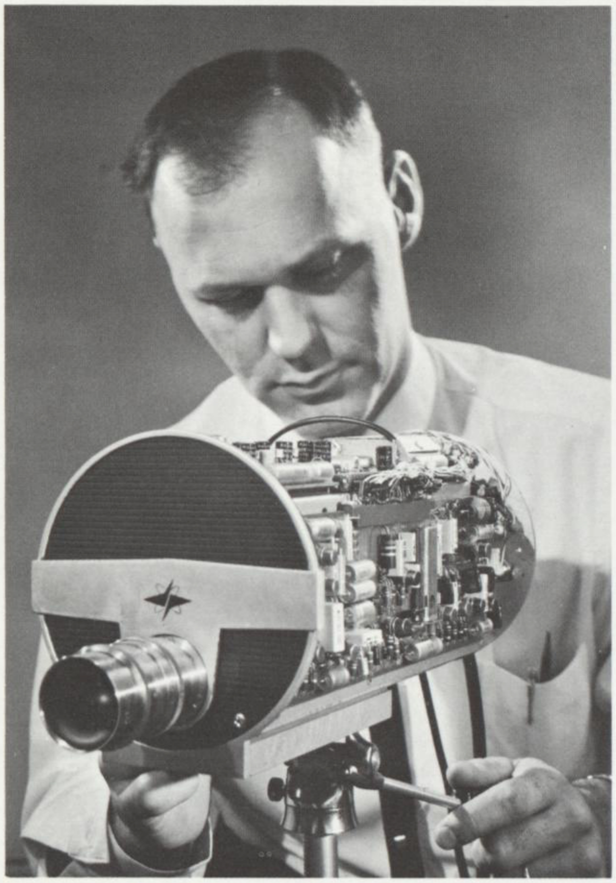
Diamond Power Specialty Corporation, which was founded in 1903, is an important supplier of boiler cleaning equipment, liquid-level gauges, electric and electronic controls, nuclear components and industrial television.

To improve its marketing position, Diamond introduced a number of new products in 1964:

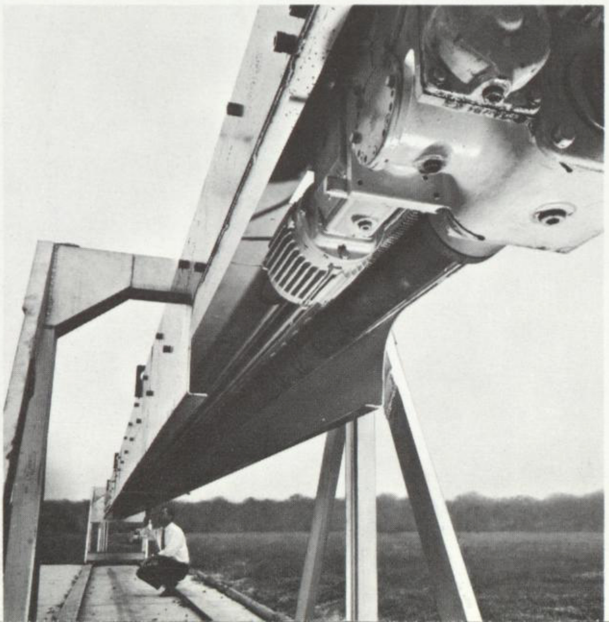
- Two closed-circuit television units—transistorized, unitized cameras and view-finders, with optional accessories—for commercial and educational, as well as industrial, TV markets;
- The Diamond "Selectrol" electric, automatic control panel for relatively small installations of less than 16 soot blowers;
- The Diamond "Select-Air-Matic" automatic control panel for medium and large soot blower installations.

Reflecting its modest but growing role in the nuclear equipment business, Diamond received nine contracts in 1964 for experimental reactor control rod drives and U.S. Navy nuclear water level gauges.

In line with B&W's policy of expanding into promising markets abroad, Diamond is taking steps to enter the relatively untapped Far Eastern and South American markets. At the same time, its British subsidiary continues to grow rapidly and to extend its activities into Scandinavia and other parts of Europe. This subsidiary has acquired a second plant, located at Dumbarton, Scotland.



The world's first all silicon-transistorized closed circuit television camera was marketed in 1964 by Diamond Power. Priced approximately 30 per cent lower than competitive models, the unit gives Diamond a strong entry into a rapidly growing market.



As boilers increase in size and efficiency so must related maintenance equipment. Diamond Power's newly developed extra-long-travel IK-500 soot blower is designed to handle the widest boilers being built today.

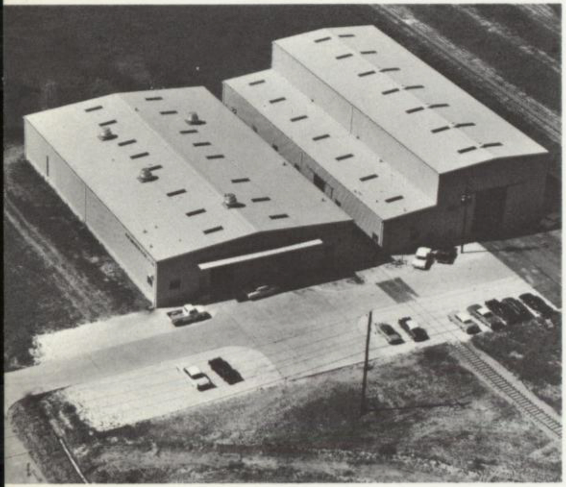
Babcock-Wilcox and Goldie-McCulloch Limited

Offices and main works of Babcock-Wilcox and Goldie-McCulloch Limited in Galt. Expansion completed in 1964 provides this works with 165,000 total square feet of manufacturing area. Foundry and machine shop work is conducted at a second works in Galt.

Babcock-Wilcox and Goldie-McCulloch Limited is Canada's leading manufacturer of steam generating and power plant equipment and accessories. Formed in 1923, it has its headquarters and principal works in Galt, Ont., and branch offices in Montreal, Que.; Toronto, Ont.; Calgary, Alta.; and Vancouver, B.C.

The firm does a heavy volume of business with utilities, pulp and paper mills, and other Canadian industries. Its bookings, shipments and backlog reached record levels in 1964.

A. M. Lockett & Co., Limited

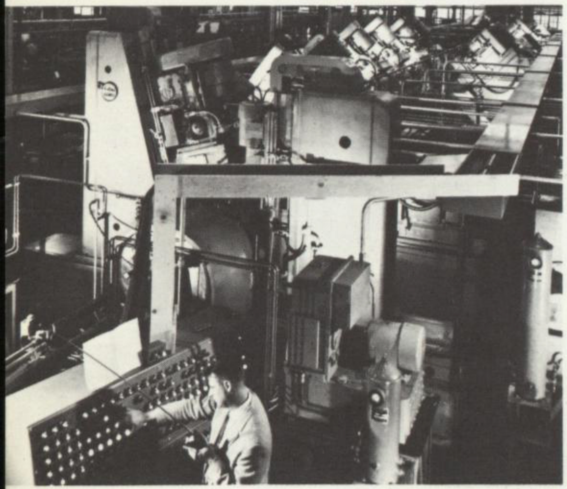


New shop and warehouse near New Orleans, La., gives Lockett improved facilities for assembling packaged compressors and refrigerating systems and for handling stock which moves rapidly.

A. M. Lockett & Co., Limited, an engineering sales organization, has been an important factor in developing the sale of boilers and other B&W products in the South and Southwest. Since its founding by B&W in 1903, Lockett has expanded its activities to cover the sale of products of other companies, and custom engineering and assembly of large components for gas and air compression, refrigeration and oil pumping and heating units.

Lockett completed a new warehouse and shop facility in late 1963 which enables it to handle larger and more complex engineering and fabricating assignments and to serve a greater variety of customers.

W. F. & John Barnes Works



W. F. & John Barnes transfer machines like unit at left may extend half a city block and utilize 40 miles of wiring in control circuitry. This one automatically performs more than 75 distinct operations.

The W. F. & John Barnes Company—a leading designer and supplier of large production machines for the automotive, food processing and other industries—was acquired by B&W in 1963. It is operated by the Boiler division. Its principal products and its manufacturing facility, at Rockford, Ill., retain the long-established Barnes name.

In 1964, its first full year as part of the B&W organization, the W. F. & John Barnes Works more than doubled shipments over those of the previous year. Included were the largest units ever to bear the Barnes nameplate, two 170 foot-long transfer machines capable of turning out 176 automobile transmission cases hourly.

The Babcock & Wilcox Company

General Offices, 161 East 42nd Street, New York, N.Y. 10017 ☐ Sales Offices in principal cities

Facilities

Atomic Energy Division
Lynchburg, Va.

Boiler Division
Barberton, Ohio
Brunswick, Ga.
El Segundo, Calif.
Lynchburg, Va.
Mount Vernon, Ind.
Paris, Texas
Rockford, Ill.
West Point, Miss.
Wilmington, N.C.

Refractories Division
Augusta, Ga.
Hephzibah, Ga.

Research and Development Division
Alliance, Ohio
Lynchburg, Va.

Tubular Products Division
Alliance, Ohio
Beaver Falls, Pa.
Milwaukee, Wis.

Babcock-Wilcox and Goldie-McCulloch Limited
Galt, Ont., Canada

Bailey Meter Company
Cleveland, Ohio
Wickliffe, Ohio
Montreal, Que., Canada

Diamond Power Specialty Corporation
Lancaster, Ohio
Dumbarton, Scotland
Southampton, Woolston, England

A. M. Lockett & Co., Limited
Jefferson Parish, La.

Products

Steam Generating Equipment
For Power, Industrial Process
  and Heating, and for Marine Service
    Water Tube Boilers
    Water-Cooled Furnaces
    Superheaters and Reheaters
    Economizers
    Air Heaters
    Pulverized Coal Systems
    Cyclone Furnaces, Stokers
    Oil, Gas and Multi-fuel Burners
    Cleaning Systems for Heat
      Transfer Surfaces
    Water Gauges
    Automatic Controls and
      Instruments
    Performance Computers

Atomic Energy Equipment
Complete Nuclear Power Systems
  and Components
    Reactors and Cores
    Pressure Vessels
    Fuel Elements
    Heat Exchangers
    Controls and Instrumentation
    Control Rod Drives
    Reactor Mechanisms
    Liquid Level Gauges
    Performance Computers
Test Reactors
Critical Experiments
Research and Economic Studies

Tubular Products
Stainless, Alloy or Carbon Steel
  Seamless and Welded Tubes
    and Pipe for all Types of Pressure
    and Mechanical Applications
Extrusions—Tubular and Solid Shapes
Welding Fittings and Flanges
Seamless Rolled Rings

Refractories Products
For Industrial Furnaces
  Insulating Firebrick
  Special Firebrick
  Silicon Carbide
  Plastics, Mortars, Castables,
    Ramming Mixes, Calcines
Ceramic Fibers

Automation Equipment and Control Systems
Systems for Process Automation
Metering and Control Apparatus
Industrial Process Computers and
  Information Systems
Automated Production Machinery
Industrial (Closed-Circuit) Television

Special Equipment
Hollow Forgings for Steam Piping
  and Other Uses
Alloy Castings
Pressure Vessels
Heat Exchangers
Recovery Processes for the Pulp Industry
Pulverizers for Cement Materials, Rock
  Products and Ores
Stud Tensioners
Glass Fiber Filter Bags
  and Bag Filter Systems

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